

## **A PROPOSAL FOR AN OPTIONAL 15% FLAT TAX**

### **SUMMARY OF PROPOSAL**

United Californians for Tax Reform (UCTR) is pleased to submit the following proposal. This Proposal offers taxpayers a voluntary alternative to the existing tax system. Under this proposal, taxpayers have the option of choosing a 15% flat tax with a standard deduction of \$10,333 for single tax filers and \$20,666 for joint tax filers. It allows no deductions, exemptions or tax credits.

### **THE PROPOSAL**

This alternative tax imposes a single 15% rate of tax on all passive income and would impose a single 15% rate of tax on all wages above a generous standard deduction. The standard deductions of \$10,333 for single filers and \$20,666 for married filers were chosen so as not to increase the tax burden on taxpayers currently in the 10% or 15% tax brackets. This plan is revenue neutral. It allows no itemized deductions, no personal exemptions, and no child tax credits.

The six key points of our plan are as follows:

- (1) Impose a single tax rate of 15 percent on all passive income.
- (2) Impose a single tax rate of 15% on all wages above a generous standard deduction.
- (3) Allows a standard deduction of \$10,333 for single tax filers and \$20,666 for Joint Filers.
- (4) Eliminates all itemized deductions, personal exemptions, and tax credits.
- (5) Retains existing tax deferred retirement accounts.
- (6) The proposed tax is a voluntary alternative to the current system. Taxpayers who want to keep their current deductions, exemptions, and rates are free to do so.

The reasons for our choice of a flat tax on income, more details on the essential features of our plan, and the benefits derived from it, are discussed as follows:

## WHY A FLAT TAX ON INCOME?

Over 75% of personal income is from wages and salaries, with the major portion of the remaining income coming from investment income reported by banks and other financial institutions. In both cases, withholding taxes at the time of distribution can easily be accomplished. We therefore see no valid reason to abandon the tax on income and create a national sales tax or value added tax to replace the current income tax.

## WHY A 15% TAX RATE

The average rate of tax collected on personal income today is about 12%. It was our desire to provide progressiveness through a standard deduction making it necessary to increase the base rate of taxation. We chose to reduce our tax base by 20% raising the tax rate required to remain revenue neutral to 15%.

## THE STANDARD DEDUCTION

The standard deduction of \$10,333 for single filers and \$20,666 for joint filers was chosen to maintain the same tax burden as the current tax code at the level at which the 15% tax rate begins today. This standard deduction applies only to wages and salaries and not to passive income which would be is taxed at the full 15% rate.

## DISTRIBUTION OF THE TAX BURDEN

Our plan reduces the tax burden for those in the 10% tax bracket and maintains today's tax burden unchanged for single filers in the 15% tax bracket who earn up to \$37,000 and joint tax filers who earn up to \$74,000. These are the income levels at which the current tax code

imposes a 25% tax rate on those who claim the standard deduction. Our plan imposes only a 15% tax rate and will reduce taxes compared to today's tax code for those who currently do not itemize deductions. A single taxpayer who is at the top of today's 25% tax bracket earning \$78,300 would save \$4130 in taxes. Married taxpayers who are at the top of today's 25% tax bracket earning \$156,000 would save \$8260 in taxes. Additional tax savings will accrue at higher income levels. Our proposal would distribute the tax burden evenly to taxpayers at any given income level regardless of their status as renters, homeowners, seniors, families with children, or citizens residing in high tax states. No one group of taxpayers would be favored over another and no longer would two taxpayers with the same income be required to pay vastly different levels of taxes

## TREATMENT OF CHARITABLE GIVING AND HOME OWNERSHIP

We make no special provision for charitable giving or home ownership but would retain the tax free status of charitable and religious organizations and the special treatment of capital gains when selling a principal residence.

## COLLECTION OF THE TAX

We propose mandatory withholding at the source, that is from employers, brokers, and financial institutions. Brokers and financial institutions would be instructed to withhold 15% of all distributions of interest, dividends, and capital gains. The Social Security Administration would be instructed to withhold 7.5% from all distributions. Employers would be instructed to withhold 15% of wages and salaries above the standard deduction.

## UNIQUE FEATURES OF OUR PLAN

Under our plan taxes withheld by financial institutions would be exact and need not be reported

to the government on an individual basis. Simply accounting that 15% of all passive income had been remitted to the U.S. treasury would be sufficient. There also would be no need for taxpayers to report this income. Employers would determine whether the employee desired to be treated as single or married then would allow the proper standard deduction.

## REVENUE NEUTRAL

Our proposal remains revenue neutral with a single 15% tax rate. Our analysis of tax data for the 2001 tax year, using 2004 tax rates and income brackets, shows that eliminating all itemized deductions, personal exemptions, and tax credits generates sufficient additional revenue to allow a 15% tax rate and a \$10,333 standard deduction yet remain revenue neutral. Details of this analysis which is the basis of our assertion to be revenue neutral is available upon request.

## CONCLUSION

In conclusion, our plan provides the economic benefit of a lower marginal tax rate by eliminating all exemptions, deductions, and tax credits and allowing a generous standard deduction of \$10,333 for single tax filers and \$20,666 for joint tax filers. It establishes a flat tax of 15% on all passive income and a flat tax of 15% above a generous standard deduction for all wages and salaries. This plan makes makes no change in the tax burden for those in today's 15% tax bracket who claim the standard deduction. Taxpayers who claim the standard deduction and who are in today's 25%, tax bracket or above will see their tax burden reduced. We hope the panel finds this plan for a revenue neutral revision to our tax code worthy of further examination

Respectfully submitted,

Roland Boucher, Chairman